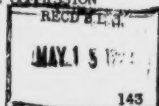


35
Q 35710

92 14 9594
11
a

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q



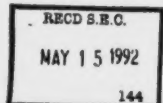
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 1992

192-2260

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-6234



ACHAT CORPORATION

Connecticut
(State of Incorporation)

06-0682460
(I.R.S. Employer Identification No.)

233 Main Street, New Britain, Connecticut 06050-2350
(Address of principal executive offices)

Registrant's telephone number including area code: (203) 229-9000

NONE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days.

Yes X No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of Class

Shares outstanding
at April 30, 1992

Common Stock
Class A Stock

716,725
3,606,205

PROCESSED BY

MAY 18 1992

11 P
Microfilmed by
Q-Data Corp. - St. Petersburg, FL

130

TABLE OF CONTENTS

	<u>Page</u>
Part I FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Earnings and Retained Earnings	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Part II OTHER INFORMATION	
Item 6. Exhibits and Reports on Form 8-K	10
Signatures	11

Part I Financial Information
Item I Financial Statements

ACHAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

<u>Assets</u>	March 31, <u>1992</u>	December 31, <u>1991</u>
Investments:		
Fixed maturities	\$ 90,542,345	85,995,822
Equity securities	2,060,250	2,087,313
Limited partnership investment	482,000	482,000
Short-term investments	6,405,270	7,515,044
Total investments	99,489,865	96,080,179
Cash and cash equivalents	4,527,473	4,938,722
Accrued interest receivable	1,822,300	1,876,686
Receivables, net	7,718,999	9,438,026
Costs in excess of billings on uncompleted contracts	2,257,547	1,813,674
Federal income tax receivable	75,166	75,149
Prepaid expenses	349,395	395,599
Deferred income taxes	740,971	230,986
Property & equipment, net	14,709,203	14,784,633
Deferred policy acquisition costs	1,954,161	2,311,586
Other assets	1,775,937	1,631,304
Intangibles, net	8,367,457	8,810,345
Organization costs, net	139,565	166,571
	<u>\$143,928,039</u>	<u>142,553,460</u>
<u>Liabilities & Stockholders' Equity</u>		
Notes payable to banks	\$ 4,000,000	4,000,000
Accounts payable	2,101,531	1,865,328
Reserves for losses and loss adjustment expenses	27,690,478	26,233,595
Unearned premiums	8,950,615	10,607,109
Billings in excess of costs on uncompleted contracts	173,119	127,369
Cash collateral held	3,684,484	3,456,155
Other accrued liabilities	865,698	1,390,508
Income taxes	246,339	146,649
Long-term debt	34,940,638	34,954,654
Total liabilities	82,652,902	82,781,367
Minority interests	28,515,939	27,563,872
Stockholders' Equity:		
Common Stock	752,008	753,908
Class A Stock	3,613,205	3,624,055
Additional paid-in capital	13,196,292	13,279,860
Retained earnings	15,336,842	14,675,255
Net unrealized loss on securities	(139,149)	(124,857)
Total stockholders' equity	<u>32,759,198</u>	<u>32,208,221</u>
Commitments and contingencies		
	<u>\$143,928,039</u>	<u>142,553,460</u>

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings and Retained Earnings

Three Months Ended March 31, 1992 and 1991

	<u>1992</u>	<u>1991</u>
Contract revenues	\$2,020,387	1,731,460
Earned premiums	5,096,322	4,724,641
Investment income, net	1,458,602	1,426,601
Net realized capital gains (losses)	11,466	(249,581)
Other income	183,132	208,182
	<u>8,769,909</u>	<u>7,841,303</u>
Cost of contract revenues	1,851,607	1,396,173
Losses and loss adjustment expenses	1,528,897	1,366,960
Amortization of policy acquisition costs	806,848	696,032
Selling, general and administrative expenses	1,563,396	1,714,682
Interest expense	965,774	929,958
	<u>6,716,522</u>	<u>6,103,805</u>
Earnings before income taxes and minority interests	2,053,387	1,737,498
Income taxes		
Federal	416,760	393,839
State	10,200	32,857
	<u>426,960</u>	<u>426,696</u>
Earnings before minority interest	1,626,427	1,310,802
Minority interests	964,840	835,696
Net earnings	<u>\$ 661,587</u>	<u>475,106</u>
Retained earnings at beginning of period	<u>14,675,255</u>	<u>12,024,996</u>
Retained earnings at end of period	<u>\$15,336,842</u>	<u>12,500,102</u>
Net earnings per share	<u>\$.15</u>	<u>.11</u>
Average shares outstanding	<u>4,389,342</u>	<u>4,439,184</u>

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Three Months Ended March 31, 1992 and 1991

	<u>1992</u>	<u>1991</u>
Cash flows from operating activities:		
Net earnings	\$ 661,587	475,106
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	889,959	868,914
Minority interests	964,840	835,696
Net realized capital (gains) losses	(11,466)	249,581
Changes in:		
Accrued interest receivable	54,386	25,689
Receivables, net	1,719,027	(583,709)
Deferred policy acquisition costs	357,425	11,035
Billings in excess of costs, net	(398,123)	53,805
Prepaid expenses and other assets	(114,428)	(286,543)
Accounts payable and accrued liabilities	(288,607)	(560,939)
Cash collateral held	228,329	(162,585)
Reserves for losses and loss adjustment expenses	1,456,883	1,200,241
Income taxes, net	(410,312)	(260,039)
Unearned premiums	(1,656,494)	(440,276)
Net cash provided by operating activities	<u>3,453,006</u>	<u>1,425,976</u>
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Fixed maturities-sold	1,220,008	5,134,903
Fixed maturities-matured	3,434,000	7,578,150
Equity securities	-	1,329,624
Purchases of:		
Fixed maturities	(9,449,895)	(14,417,475)
Equity securities	-	(66,002)
Short-term investments, net	1,109,774	757,731
Payments for non-compete agreement	-	(860,000)
Capital expenditures	(67,808)	(236,924)
Net cash used for investing activities	<u>(3,753,921)</u>	<u>(779,993)</u>
Cash flows from financing activities:		
Payments on long-term debt	(14,016)	(12,726)
Payments for subsidiary stock	-	(274,581)
Payments for acquisition & retirement of stock	(96,318)	(257,837)
Net cash used for financing activities	<u>(110,334)</u>	<u>(545,144)</u>
Net increase (decrease) in cash and cash equivalents	(411,249)	100,839
Cash and cash equivalents at beginning of period	<u>4,938,722</u>	<u>3,692,246</u>
Cash and cash equivalents at end of period	<u>\$ 4,527,473</u>	<u>3,793,085</u>

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS:

(1) Financial Statements

The consolidated financial statements include the accounts of AQMAT Corporation ("AQMAT" or the "Company"), its wholly-owned subsidiaries, AQMAT of Texas, Inc., AMINS, Inc. and Geremla Electric Co.; its 91% owned subsidiary ACSTAR Holdings, Inc. ("AHI") and AHI's wholly-owned subsidiary, ACSTAR Insurance Company ("ACSTAR"); and its 52.7% owned subsidiary United Coasts Corporation and its wholly-owned subsidiary, United Coastal Insurance Company. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and are unaudited.

The interim financial information contained in this report has been prepared from the books and records of the Company and its subsidiaries and reflects, in the opinion of the management of the Company, all adjustments (consisting of normal and recurring accruals) necessary to fairly present results of operations for the periods indicated. All significant intercompany accounts and transactions have been eliminated in consolidation.

These statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1991.

(2) Investments

Investments in fixed maturities and equity securities were as follows:

	<u>Carrying Value</u>	<u>Amortized Cost or Cost</u>	<u>Market Value</u>
<u>March 31, 1992</u>			
Fixed maturities	\$90,542,345	90,542,345	91,342,967
Equity securities	\$ 2,060,250	2,306,070	2,060,250
<u>December 31, 1991</u>			
Fixed maturities	\$85,995,822	85,995,822	87,641,125
Equity securities	\$ 2,087,313	2,306,070	2,087,313

(3) Earnings per share

Earnings per share are computed using the weighted average number of shares of common stock outstanding for the period and reflects the common stock equivalency of outstanding stock options and warrants, if dilutive.

(4) Supplemental Cash Flow Information

Income taxes paid during the three months ended March 31, 1992 and 1991 was \$837,272 and \$686,733, respectively, and interest paid for the three months ended March 31, 1992 and 1991 was \$965,774 and \$536,208, respectively.

ACMAT CORPORATION

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net earnings increased 39% to \$661,587 for the three-month period ended March 31, 1992 from \$475,106 for the same period last year. The increase in net earnings from the prior period reflects improved earnings from the insurance operations which include an increase in earned premiums and a decrease in realized capital losses on equity securities. Capital losses realized during the three months ended March 31, 1991 resulted from the Company's decision to reduce its exposure to bank stocks.

Revenues

Contract revenues increased 17% to \$2,020,387 from \$1,731,460 during the three-month period ended March 31, 1992 as compared to the three-month period ended March 31, 1991. The lower gross margin on construction revenue in 1992 is reflective of the economy. Such upward and downward fluctuations are inherent in the industry and difficult to stabilize. The Company's construction contracting backlog at March 31, 1992 and 1991 was approximately \$8,800,000 and \$7,500,000, respectively, which reflects management's selective bidding practices and management's increased commitment of time to its insurance operations.

Premiums written for the three months ended March 31, 1992 were \$3,439,828 compared to \$4,362,364 for the three months ended March 31, 1991, a decrease of \$922,536. A significant amount of the decrease is attributable to very stringent underwriting and pricing criteria. New business submissions continue to increase as a result of the strong demand for the Company's insurance products.

Earned premiums for the three months ended March 31, 1992 were \$5,096,322 compared to \$4,724,641 for the same period in 1991, an increase of \$371,681. Unearned premium reserves are calculated on a pro-rata basis for the unexpired terms of the policies and bonds in force. Consequently, premiums written in prior periods as well as current periods will affect premiums earned in the current and future periods.

Net investment income increased to \$1,458,602 for the three months ended March 31, 1992 from \$1,426,601 for the three months ended March 31, 1991, an increase of \$32,001. This increase is attributable primarily to the increase in average invested assets, offset, in part, by a decrease in the yield on the portfolio as a result of lower short-term market interest rates and an increase in tax-exempt investments. Investments were \$99,489,865 and \$84,302,081 at March 31, 1992 and 1991, respectively. This increase is attributable to the net cash flow generated by written premiums and the reinvestment of investment income. The Company maintains a conservative investment policy of acquiring high quality investments with fixed effective maturities of approximately five years or less.

Operating Expenses

Cost of contract revenues increased 33% to \$1,851,607 during the three-month period ended March 31, 1992 as compared to \$1,396,173 for the same period in the prior year. The lower gross margin in 1992 is reflective of the economy.

ACMAT CORPORATION

Losses and loss adjustment expenses were \$1,528,897 for the three months ended March 31, 1992 compared to \$1,366,960 for the three months ended March 31, 1991. Reserves for losses and loss adjustment expenses represent management's estimate of the ultimate cost of unsettled losses incurred to date relative to premiums earned. Amortization of policy acquisition costs was \$806,848 during the three month period ended March 31, 1992 as compared to \$696,032 for the three-months ended March 31, 1991. Policy acquisition costs, primarily commissions, are deferred and amortized over the policy term.

Selling, general and administrative expenses decreased to \$1,563,396 during the three-month period ended March 31, 1992 compared to \$1,714,682 during the three-month period ended March 31, 1991. This decrease in selling, general and administrative expenses reflects management's continued efforts towards reducing overhead costs during 1992.

Interest expense has increased to \$965,774 during the three-month period ended March 31, 1992 compared to \$929,958 during the same period a year ago. The increase is due to an increase in short-term borrowings.

Income tax expense was \$426,960 during the three months ended March 31, 1992 compared to \$426,696 during the same period a year ago, representing effective tax rates of 20.8% and 24.6%, respectively. The decrease in the effective tax rate from 1991 to 1992 relates primarily to increased tax-exempt interest income.

Liquidity and Capital Resources

Funds generated from operations have historically been sufficient to meet cash needs. However, during the past few years the Company significantly increased its long-term debt to finance its investments in its insurance operations and to renovate its corporate headquarters.

The terms of certain note agreements contain limitations on payment of cash dividends, re-acquisition of shares, borrowings and investments and require maintenance of specified ratios and minimum net worth levels. The Company was in compliance with all covenants at March 31, 1992.

Net cash flows provided by operations, principally from contract revenues and premium collections, amounted to \$3,453,006 and \$1,425,976 during the three-month periods ended March 31, 1992 and 1991, respectively. Net cash used for investing activities amounted to \$3,753,921 and \$779,993 during the three-month periods ended March 31, 1992 and 1991, respectively. Cash used for investing activities reflects net purchases of investments of \$3,753,921 during the three-month period ended March 31, 1992 and net proceeds from sales of investments of \$316,931 during the three-month period ended March 31, 1991. Purchases of investments are made based upon excess cash available after the payment of losses and loss adjustment expenses and other operating and non-operating expenses.

Fixed maturity sales of \$1,220,008 and \$5,134,903 during the three-month periods ended March 31, 1992 and 1991, respectively, are primarily the result of sales of fixed maturity investments with weekly put options which are held until appropriate permanent investments are made. The fixed maturity investments with weekly put options have interest rates which adjust weekly based on market rates at the time of adjustment. These investments generally trade at par value. ACMAT's insurance subsidiaries' cash flow from operations has permitted a steady growth in invested assets. The Company has experienced no difficulty in maintaining adequate levels of cash and short-term investments for the payment of contract expenses, claims and operating expenses as they come due.

ACMAT CORPORATION

At March 31, 1992, the short-term credit available to the Company was \$8,000,000 of which \$4,000,000 was outstanding. Treasury stock purchased during the three-months ended March 31, 1992 resulted in a reduction of stockholders' equity of \$96,318.

Acquisitions

On September 12, 1991, the Company signed a Letter of Intent with the Sheet Metal Workers' National Pension Fund (Fund) to purchase 3,000,000 shares of United Coasts Corporation common stock held by the Fund for \$16,500,000. Such purchase would be payable by a 30-year, unsecured, \$16.5 million subordinated debenture yielding 11- $\frac{1}{2}$ % interest convertible into ACMAT Corporation Class A shares at \$11.00 per share.

As a result of this transaction, ACMAT Corporation and its subsidiaries would own 82% of the stock of United Coasts Corporation.

The transaction is subject to certain conditions, including the approval of certain debtholders, execution of a definitive purchase agreement and other necessary legal, government, corporation and pension fund regulatory approvals and/or exemptions.

Part II - Other Information

Item 6 - Exhibits and Reports on Form 8-K

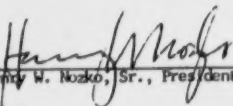
- a. Exhibits - None
- b. Report on Form 8-K - None

SIGNATURES

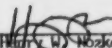
Pursuant to the requirements of Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AQMT CORPORATION

Date: May 14, 1992


Henry W. Nozko, Sr., President and Chairman

Date: May 14, 1992


Henry W. Nozko, Jr., Executive Vice President
Chief Operating Officer, and Treasurer